

HOUSE BILL REPORT

HB 2594

As Reported By House Committee On:

Finance

Title: An act relating to sales and use taxation of carbon that becomes an ingredient or component of anodes or cathodes used in producing aluminum for sale.

Brief Description: Providing a sales and use tax exemption for carbon used in producing aluminum.

Sponsors: Representatives Pennington, Morris, McMorris, Sheldon, Boldt, Linville, Hymes, Goldsmith and Thompson; by request of Department of Revenue.

Brief History:

Committee Activity:

Finance: 1/29/96, 2/5/96 [DP].

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 12 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Boldt, Vice Chairman; Morris, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Hymes; Mason; Mulliken; Pennington; Schoesler; Sheldon and Van Luven.

Staff: Bob Longman (786-7139).

Background: The sales tax is imposed on retail sales of most items of tangible personal property and some services. The state tax rate is 6.5 percent and is applied to the selling price of the article or service. In addition, local sales taxes apply. The total rate is between 7 percent and 8.2 percent, depending on the location.

Sales tax applies when items are purchased at retail in the state. Sales tax is paid by the purchaser and collected by the seller. Use tax is imposed on the use of an item in this state, when the acquisition of the item has not been subject to sales tax. Use tax applies to items purchased from sellers who do not collect sales tax, items acquired from out of state, and items produced by the person using the item. Use tax is equal to the sales tax rate multiplied by the value of the property used.

Materials which become an ingredient or component of a new article of property for sale are exempt from sales and use taxes. Chemicals used in processing are also

exempt, when the primary purpose of the chemical is to create a chemical reaction directly through contact with an ingredient of a new article being produced for sale.

The production of aluminum requires the separation of the aluminum and oxygen, which occurs in a series of electric furnaces. Heat and electrical current are supplied by a positive anode and a negative cathode in the furnace. Both the anode and cathode are made of carbon but contain other elements in trace quantities. Anodes are consumed rather quickly. Approximately one-half pound of carbon (from the anode) is consumed in the production of each pound of aluminum. Cathodes have a longer useful life, lasting somewhere in the range of three to six years.

It is unclear whether anodes and cathodes used in aluminum manufacturing qualify as chemicals used in processing for purposes of sales and use tax exemption.

Summary of Bill: Carbon, petroleum coke, coal tar, pitch, and similar substances that become ingredients or components of anodes or cathodes used in producing aluminum are exempt from sales and use taxes.

Appropriation: None.

Fiscal Note: Requested on January 23, 1996.

Effective Date: The bill takes effect on July 1, 1996.

Testimony For: Anodes have been treated as exempt from sales tax since 1957. Recently there has been some question as to the validity of this exemption. This bill removes any doubt on the exemption of anodes and extends the exemption to cathodes. Other states exempt anodes and cathodes from sales tax. To be fair, Washington should do the same. Otherwise, Washington aluminum producers will be at a competitive disadvantage in the world market.

Testimony Against: None.

Testified: Robert Taylor, Alcoa; Kenneth R. Johnson, Kaiser Aluminum and Chemical Corporation; Bill Fritz, Reynolds Metals Company; and Ryan Spiller, Department of Revenue.